HOME MORTGAGES

TRAINING MANUAL

PREFACE

This manual was designed as a basic training instrument to provide typical policies, practices and procedures used by financial institutions in the United States when originating and servicing home mortgage loans. It has been made relevant to the Mortgage Fund Program by indicating specific references in the Procedural Mortgage Lending Guide and the Mortgage Fund Operations Manual. If forms have been developed for the requirements of the program, they are provided and indicated with the symbol "_". Many of the forms are contained in the application, but are provided in addition as exhibits to facilitate the use of this manual.

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SECTION I

Real Estate Credit Policy

HOME MORTGAGES

Mortgage loans for the purchase of single-family homes by persons intending to occupy the property as the primary residence.

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1. Loan Committee

It is recommended that a committee be created for just the approval of home mortgage loans. The process in approving these loans is less complicated than construction loans. The procedure essentially is a review of those loans which have met the specific guidelines with respect to property value and the credit and income requirements for the amount of the loan being requested.

By using standard forms and specific ratios, the request should be decided on quickly.

The committee could be comprised of the Credit Department Manager and the Senior Officer of the Home Mortgage Unit and a representative of the Bank's senior management. The senior management representative could be rotated among several officers, thereby providing the individuals with knowledge concerning this type of lending and provide senior management with a continual awareness of the mortgage unit's operations and compliance with Bank credit policy.

Meetings for approval can be scheduled based on the number of loans to be considered.

2. Loan Approval Authority

It is suggested that loan approval authority be granted to the Credit Department Manager and the senior officer of the mortgage unit who jointly could approve loans and who could approve exceptions to policy. Any such approvals could then be presented to the Loan Committee for review and information purposes.

This practice should, of course, be used judiciously.

3. Property Types

Mortgage loans can be secured by:

– houses, single, semi-detached, or town

– one-family flats

– cooperative housing units

Properties must contain at most 150 square meters of living space for houses and 100 square meters for flats, provided that the costs of the additional floor space above 150 and 100 square meters is covered by an increase in equity by the borrower. The exterior design and the interior layout and the construction materials must be in accordance with the Bank's standard for homes of the type being financed.

Procedural Mortgage Lending Guide, May 1993
Section 2.1.2.2 Eligible Properties
Section 2.1.2.3 Ineligible Properties

4. Loan Amounts

Loans may not exceed 75% of the appraisal value or the cost, whichever is less. In addition, under no circumstance may loans exceed 36 times the verified monthly household income of the borrower.

Procedural Mortgage Lending Guide, May 1993
Section 2.1.2.4 Eligible Loan Amounts and Income

5. Loan Term

The loan term for the Dual-Index Mortgage is variable and will depend on such factors as the rate of inflation and changes in the Wage Index in Six Sectors of the Economy.

Mortgage Fund Operations Manual, October 5, 1993
Section 4.4.2 General Description of the Dual-Index Mortgage (DIM)
Section 4.4.9 Repayment Period

6. Loan Pricing

A. Interest Rates

[TO BE DETERMINED]
A variety of variable forms should be considered.

B. Fees

A loan application or originating fee of 1%-2% is suggested to cover the cost to the Bank of processing the loan.

In addition, appraisal and any fees for inspections for environmental purposes, etc. and any legal fees should be paid by the borrower.

Procedural Mortgage Lending Guide, May 1993
Section 1.2.7 Servicing Compensation
Section 8.1.5 Dual-Index Mortgage (DIM)

7. Loan Repayment

While the term may be fixed, the repayment schedule should be established on an amortized basis. Payments should be set based on the ability of the borrower to pay at a rate not to exceed 25% of the family's monthly income.

If interest rates are variable, the rate adjustment times should be on the annual anniversary dates of the loan. It is suggested that increases be limited for each adjustment time with a maximum limit not to be exceeded for the life of the loan.

Mortgage Fund Operations Manual, October 5, 1993
Section 4.4.2 General Description of the Dual-Index Mortgage (DIM)

8. Loan to Value

Loans may not exceed 75% of the appraisal value or the cost, whichever is less. In addition, under no circumstance may loans exceed 36 times the verified monthly household income of the borrower.

Procedural Mortgage Lending Guide, May 1993
Section 2.1.2.4 Eligible Loan Amounts and Income

9. Appraisal

A list of qualified appraisers should be compiled and approved by the board. The quality of appraisers' work should be closely and continually monitored, and changes should be made as needed.

Appraisers should be given specific instructions in writing to perform appraisals and submit their reports on a Bank-approved form.

Specifics for appraisals are contained in the processing procedures.

Procedural Mortgage Lending Guide, May 1993
Section 2.6 Appraisal
Section 3.2 Appraisal Standards for Participating Banks When Participating in Bud Bank Programs
Section 3.2.1 Property
Section 3.2.2 Community
Section 3.2.3 Estimate of Value

10. Equity Requirements

Borrowers must pay cash for the difference between the amount of the purchase price and all related costs and the amount of the mortgage being provided by the Bank. Secondary financing for any portion of the equity will not be permitted.

Procedural Mortgage Lending Guide, May 1993
Section 2.1.2.4 Eligible Loan Amounts and Income
Section 4.2 Repayment of Construction Sub-loans and Booking Mortgage Loans
Section 4.2.1 Mortgage Sub-loans Secured by Flats
Section 4.2.2 Mortgage Sub-loans Secured by Single-Family Units

11. Credit Standards

Applicants (individual or family) will be evaluated on the basis of credit history, net worth and the amount of monthly income from the following:

– salaries from full-time income
– income from overtime or part-time employment
– income from retirement or pension plans
– income from savings, investments, inheritances or any other income which are continuing and can be verified.

Procedural Mortgage Lending Guide, May 1993
Section 2.1.2.5 Acceptable Sources of Income
Section 2.2 Income Verification
Section 2.2.1 Salaried Employees
Section 2.2.2 Other Than Salaried Employees (Entrepreneurs)
Section 2.3 Sources of Funds Verification
Section 2.9 Verification of Other Debts
Section 3.1 Credit Documentation
Section 3.1.1 Standard Credit Documentation
Section 3.1.2 Verification of Employment Income
Section 3.1.2.1 Self-employed Beneficiaries
Section 3.1.2.2 Salaried Employees
Section 3.1.4 Verification of Payment History on Previous Housing
Section 3.1.5 Credit Verification

12. Legal

Bank's legal representative will be required to prepare or review loan documents and title information to opine that the Bank has a first lien on the property securing the loan.

13. Commitments

Applicants should be notified of the approval of a loan with a commitment letter. The letter should explain in detail all the terms and conditions of the loan, and the responsibilities the applicant must fulfill before the loan can close. The letter should be in a format approved by the Loan Committee and be used for every loan.

The applicant should acknowledge understanding and agreement to the terms and conditions by signing and returning a copy of the letter within two weeks from the date it is issued. The letter should make perfectly clear that the commitment is only outstanding for a limited time and that the loan must close prior to a specific date or the commitment will expire.

While each commitment does not have to be prepared by the Bank's legal representative, the form of letter the Bank uses should be approved by the legal representative.

Procedural Mortgage Lending Guide, May 1993
Section 2.13.1 Sub-loan Denial
Section 2.13.2 Sub-loan Approval

14. <u>Documentation</u>

All documents should be prepared by the Bank's legal representative in a standard format.

In preparing the format to be used, the requirements of future secondary markets should be considered, and accordingly documentation should be extensive.

Mortgage Fund Operations Manual, October 5,1993
Section 8 Legal Issues
Section 8.1 Mortgage on the Property

15. Title

The Bank's legal representative should review the status of title of the property securing the Bank's mortgage and should opine that the Bank has a first lien.

Any title exceptions would have to be approved by a senior Bank officer with guidance from the legal representative as to the nature of the exception and the possible risk to the Bank in granting an exception.

Procedural Mortgage Lending Guide, May 1993
Section 2.5 Land Ownership Evidence
Section 2.14 Lien Recordation
Section 2.15 Lien Assignments
Section 3 Underwriting Guidelines
Section 8.14 Protection of the Security -- Notice of Liens or Legal Actions

Mortgage Fund Operations Manual, October 5, 1993
Section 8 Legal Issues
Section 8.1 Mortgage on the Property

16. Insurance

Coverage from an insurance provider approved by the Bank must be obtained in at least the mortgage amount covering loss from fire or other catastrophe for which insurance is usually provided.

The Loan Committee should approve a list of insurance providers indicating the amounts of coverage acceptable from each provider.

The mortgage servicing department must maintain insurance files and be certain that coverage is in effect at all times during the term of the loan.

Procedural Mortgage Lending Guide, May 1993
Section 2.11 Insurance Evidence
Section 8.11 Property Insurance, Taxes and Land Leases
Section 8.11.1 Hazard Insurance

17. Processing Procedures

The procedure governing the conduct of business by the mortgage processing unit are an integral part of this credit policy and must be approved by the Loan Committee. Any changes in procedure must also be approved by the Loan Committee.

Procedural Mortgage Lending Guide, May 1993
Section 1.3.4 Compliance with Applicable Laws
Section 1.3.5 Conflict of Interest
Section 1.4.4 Individual Mortgage Sub-loan Files
Section 2 File Documentation

18. Servicing Procedures

The procedures governing the conduct of business by the mortgage servicing unit are an integral part of this credit policy and must be approved by the Loan Committee. Any changes in procedure must also be approved by the Loan Committee.

Procedural Mortgage Lending Guide, May 1993
Section 1.3.4 Compliance with Applicable Laws
Section 1.3.5 Conflict of Interest
Section 1.4.4 Individual Mortgage Sub-loan Files
Section 8 Servicing Mortgage Sub-loans

Mortgage Fund Operations Manual, October 5, 1993
Section 4.7 Mortgage Servicing, Late Payments and Defaults
Section 4.7.1 Responsibilities of the Participating Bank

19. Regulatory Compliance

The mortgage department must continually be aware of all government and other regulatory requirements and must be sure that the Bank complies in all respects with such requirements.

The department must inform the Bank's senior management of changes affecting the mortgage lending function and the credit policy must always reflect the current regulatory requirements.

20. Market Area

The Bank will provide mortgage loans throughout Poland.

21. <u>Loan Production Objectives</u>

The Bank's senior management must keep the department aware of production objectives, along with yields desired and types of loans to be offered.

22. Request for Loan Approval

Loan approval requests should be summarized in a format which provides subject property information and applicant credit information together with the appropriate ratios.

Recommendation should be submitted on a timely basis to the Mortgage Loan Committee for action. Requests should be submitted to those who will attend the meeting at least three days prior to the day of the meeting.

23. Management Reports

The mortgage department will be responsible for various reports on a monthly basis reflecting its activities to include, but not necessarily limited to, the following:

– Loans outstanding by property type, maturity date, interest rate

– Commitments outstanding

– Loans in process

– Delinquents status (30/60/90 days)

– Loans in default and efforts in process to collect

– Loan activity by region

– Fees collected

– Loan payoffs

Procedural Mortgage Lending Guide, May 1993
Section 7 Reporting Requirements
Section 7.1 Organizational Changes
Section 7.2 Procedural Changes
Section 7.3 Annual Reports
Section 7.4 Monthly Reports
Section 7.5 Optional Reports
Section 7.6 Other Reports
Section 8.3 Accounting and Reporting to the Bud Bank

Mortgage Fund Operations Manual, October 5, 1993
Section 7 Audit Requirements
Section 7.1 Fund Audit Requirements
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SECTION II

Mortgage Loan Origination

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PREFACE

The following pages describe the procedures to be followed when originating home mortgages. The procedures are established to enable those responsible for this business to provide assets with a minimum of risk to the Bank and efficient service to its customers.

When making mortgage investments, it is necessary for interviewers, processors, underwriters, approvers, and closers to adhere strictly to the Bank-approved lending policies and procedures.

Each function in the process requires particular knowledge and technical skills which must be carried out in a professional manner to fulfill the requirements of the Bank and the needs of its customers.

While policies and procedures will of necessity from time to time change, until such change occurs all loans must be originated in accordance with the existing regulations. Any warranted exceptions to these regulations must be approved by the Bank's management before an exception can be permitted.

I. LOAN ORIGINATION

The origination process is critical to the efficient processing of a loan request and the ultimate decision with regard to approval in a timely manner.

It is recommended that the process be carried out in two stages. The first stage should be preparing the applicant for the extensive interview procedure, which should result in a completed application. To accomplish this in an expeditious manner, it is recommended that a pre-application package [Exhibits A, B & C] be given to an applicant when they inquire about obtaining a mortgage. Whether the inquiry is in person, by telephone, or by letter, the credit officer can respond with the application package. The package should contain an explanation of the process necessary to obtain a loan, together with a glossary of terms and language that will be encountered by the applicant during the process, such as appraisal, real estate tax escrow, amortization, etc.

There should be specific instructions as to the information that will be required to complete the application form. An indication of the costs of obtaining a mortgage should also be provided, such as application fees, appraisal fees, lawyer's fees, etc. An estimate of the time it will take to obtain a decision from the Bank should also be provided.

The second stage will occur when the applicant believes they are ready to submit an application. An appointment date and time should be set by the Bank. Applicants should not be permitted to arrive at the Bank without an appointment. It is very important that the application process be conducted in a controlled manner to permit the Bank to manage its loan processing case load to provide quick, efficient service to its customers.

A. The Interview

The credit officer accepting applications must be knowledgeable about the Bank's lending programs and be prepared to answer questions and assist applicants. Credit officers must always remember that unlike the business customer whom they serve, home buyers are not usually knowledgeable about bank loans or any of the other matters relating to the major transaction of purchasing a home. Therefore, a great amount of patience, tact, and a sense of humor will be required of the credit officer.

The interview itself should be conducted in a professional manner, which will put the applicant at ease. The interviewer should briefly discuss the mortgage plans available and the general requirements and processes necessary to apply for a mortgage.

The interviewer should be alert to detect any signs of confusion or lack of understanding, which the applicant may have. Questions should be encouraged and the interviewer should respond in complete honesty, even though this may mean advising applicants quickly that they do not qualify at this time for a mortgage. It is better for the applicant to deal with disappointment immediately, rather than go through the application process and eventually be rejected on the basis of a condition that was apparent at the time they submitted the application. The interviewer must remember that by being sensitive in conducting the application interview, they may be going a long way in developing a customer for other services of the Bank.

B. The Application

The application [Exhibit D] requires a great amount of personal, detailed information and should be treated by the interviewer with the utmost confidentiality. The applicant's information should be disclosed only to those who have a need to know.

In addition to the information required by the application, the interviewer must obtain supplementary information to assist the Processing Unit to carry out its responsibility. A list of the types of support information is attached as [Exhibit E].

Since information relating to employment, deposits and credit must be verified, the interviewer must have the applicant sign authorization forms [Exhibits F,

G & H] to enable the processor to perform the necessary verifications. Information taken as support material in some cases should be documented by copying. For instance, an applicant's pay receipt, or evidence of bank accounts, should be copied and the originals should be immediately returned to the applicant. When the application is completed, the credit officer should obtain the application fee.

When concluding the interview, advise the applicant that they will receive written acknowledgement of their application from the Bank's Loan Processing Unit by a certain date and if additional information is needed to complete the application, they will be advised at that time.

The credit officer should send the application, the application fee, and all supporting information to the Processing Department, retaining a copy of the application and opening a file. The credit officer should also make a calendar notation of the date by which the acknowledgement letter is to be issued. If the credit officer does not receive a copy of the letter by the designated date, the Processing Department should be contacted for an explanation and the credit officer should advise the applicant accordingly. The credit officer should follow the progress of the application on a routine basis until the loan is closed.

Mortgage Fund Operations Manual, October 5, 1993
Section 4.5 Sub-loan Approval Procedure
Section 4.5.1 Submission of Application
Section 4.5.2 Submission of a Purchase Contract
Section 4.5.3 Statement of Household Income and Downpayment
Section 4.5.5 Bank Review of Application

Procedural Mortgage Lending Guide
Section 2.1 Loan Application Documents
Section 2.1.1 Loan Application
Section 2.2 Income Verification
Section 2.2.1 Salaried Employees
Section 2.2.2 Other Than Salaried Employees (Entrepreneurs)
Section 2.3. Source of Funds Verification
Section 2.9 Verification of Other Debts
Section 2.10 Verification of Additional Collateral

Section 2.12 Tax Payment Evidence

II. PROCESSING

The processing of the application is a very detailed, very complex, and very time-consuming activity, which requires strict compliance to the established rules governing the process.

When an application is received, enter the application information in the Application Register [Exhibit I] and assign a number. The processor should acknowledge receipt of the application to the credit officer by informing the officer in writing of the application number and confirming that an acknowledgement will be sent to the applicants by the date which the interviewing officer indicated to the applicants. If there is any change in the expected date the interviewing officer should advise the applicant.

The processor should prepare a worksheet or application follow-up [Exhibit J], open a file and begin assembling and verifying information. This will require resolving discrepancies and obtaining explanations about matters which are not readily apparent from the information submitted or received while verifying.

After a preliminary review of the application and supporting information and, if satisfactory or if additional information is required, the processor should send the acknowledgement letter [Exhibit K] to the applicant with any requests for additional information. A copy of the letter should also be sent to the originating credit officer.

A. Verification

During this stage, sufficient information must be obtained and verified to underwrite the application and make a decision about whether or not to approve a loan.

The attached [Exhibit L] is a list of items which must be verified. Those being contacted for information about an applicant must be provided with the written authorization obtained by the interviewer indicating that they are authorized to disclose the requested information.

Requests for information should indicate the date by which a response is desired and a stamped return envelope to the attention of the processor by name should be enclosed.

A calendar should be maintained by the processor indicating the date on which the request for information was sent and indicating the date by which the response is expected. If the response is not received by the target date, then the informant should be contacted by telephone.

The processor should remember that time is of the essence. The purchase agreement stipulates a date by which the mortgage must be committed and the date by which the sale must be consummated.

If the Bank fails to carry out its responsibility in rendering a decision about the loan request, and as a consequence the applicant suffers a penalty or loses the opportunity to purchase the home, the Bank, in turn, could be penalized.

B. Appraisal

Early in the processing stage the processor should order an appraisal of the property from a Bank-approved appraiser. The assignment should be given in writing with a letter similar to [Exhibit M].

The processing calendar should be noted as to the date the appraisal assignment was made and the expected date when the report is to be submitted, as with the information requiring verification, the processor must follow for the timely receipt of the appraisal.

The appraisal report should be in a Bank-approved format containing the information stipulated in the assignment letter [Exhibit N_].

Upon receipt of the appraisal, the processor must review it for compliance with the assignment instructions.

When all personal, credit and property information has been received and the processor is satisfied that there is sufficient information to underwrite the loan request, the file is turned over to the underwriter.

Procedural Mortgage Lending Guide, May 1993
Section 2.1.1 Loan Application
Section 2.2.1 Salaried Employees
Section 2.2.2 Other Than Salaried Employees (Entrepreneurs)
Section 2.3 Source of Funds Verification
Section 2.6 Appraisal
Section 2.9 Verification of Other Debts
Section 2.10 Verification of Additional Collateral
Section 2.11 Insurance Evidence
Section 2.12 Tax Payment Evidence

III. UNDERWRITING

The underwriting procedure requires analyzing the information obtained during the processing of the application and relate it to the Bank's lending guidelines. Degrees of risk are associated with all loans and it is the underwriter's job to weigh these risks and decide how much risk is acceptable, based on the credit of the applicant and the real estate security. This process is to a large extent, judgmental.

A. Applicant

With respect to the credit of the borrower, there are ratios which are used. These ratios have been determined to be reasonable indicators of a borrower's capability to meet their financial obligations. While the objective of the Bank should be to have all of its mortgages adhere to standard ratios, it is recognized that there will be exceptions. For example, negatives such as a deficiency in income may be offset by a very strong net worth or more than the required minimum equity in the real estate. Where exceptions are made to the standards, the compensating strengths should be extensively verified and documented.

The ratio test has two parts, the first relates monthly housing expense to gross monthly income and the second relates total monthly obligations to gross monthly income.

The first standard has been established at 40%. The ratio is determined by dividing the total monthly housing costs by the gross monthly income and the result should not exceed 40%. The monthly housing costs are those which will be required to carry the monthly debt on the new home and consist of:

- ***mortgage principal***
- ***mortgage interest***
- ***property insurance***
- ***real estate taxes***
- ***cooperative fees***

The second standard has been established at 45%. This ratio is determined by dividing the total monthly obligations, including housing expenses by the gross monthly income, and the result should not exceed 45%. Examples of these obligations would be:

- *auto loan payments*
- *personal loan payments*
- *installment payments to stores*
- *credit card payments*
- *alimony*
- *child support*
- *utility payments (gas, electricity, telephone, water)*

After establishing the income and expense ratios, the underwriter must review the credit history compiled by the processor. The processor may have provided explanations for certain deficiencies such as an applicant having had a credit problem. While the explanation may appear reasonable the underwriter must acknowledge that the occurrence indicates an element of risk and investigate further. For example, if looking at the employment and income history the underwriter finds that although the applicant is currently employed with income that meets the ratio test, but job history indicates that employment has not been consistent, the underwriter again must acknowledge an element of risk. When the credit history and employment history are taken into consideration, there is a question as to whether the loan should be approved.

In a situation such as this an underwriter might take action and decline the application, or perhaps as a result of further investigation, the underwriter may find the applicant is contributing substantial equity and the loan request is relatively small; therefore, the underwriter might recommend the loan for approval.

The process of underwriting is not a science, but rather is somewhat of an art, and requires strong technical knowledge together with the need to be inquisitive, imaginative and creative.

B. <u>The Real Estate</u>

As with the analysis of the applicant, the evaluation of the real estate requires judgment. The appraisal will provide objective information concerning location, construction, condition, age, etc. However, the appraisal cannot be used as the sole determinant as to whether or not the property is adequate and appropriate security for the proposed loan.

For example, an applicant may be attempting to purchase a property which the appraisal indicates has sufficient value to secure the loan, but the appraisal also indicates the property needs a great amount of repair and improvement. If an underwriter reviews the applicant's net worth and determines there is very little in the way of liquid assets that could be used to pay for the required improvements, then the underwriter might very well decline the application. However, if further investigation by the underwriter discloses that the applicant works for a contractor, is an excellent tradesman and his employer is going to assist in making the improvements, then there might be good reason to recommend approval of the loan.

It must be understood the appraisal is a very significant instrument in the underwriting process. If the underwriter is not satisfied with the information presented, the appraiser must substantiate, clarify, explain, or redo the appraisal to the satisfaction of the underwriter.

Like the processor, the underwriter must remember time is of the essence and the underwriter must expedite the process.

Mortgage Fund Operations Manual, October 5, 1993
Section 4.4.11 Collateral Requirements
Section 4.4.12 Collateral Not to be Excessive
Section 4.5.4 Appraisal of Property Value

Procedural Mortgage Lending Guide, May 1993
Section 3 Underwriting Guidelines
Section 3.1 Credit Documentation
Section 3.1.1 Standard Credit Documentation
Section 3.1.2 Verification of Employment and Income
Section 3.1.2.1 Self-employed Beneficiaries
Section 3.1.2.2 Salaried Employees
Section 3.1.3 Verification of Funds Available for Closing
Section 3.1.4 Verification of Payment History on Previous Housing
Section 3.1.5 Credit Verification
Section 3.1.6 Guarantors
Section 3.2 Appraisal Standards
Section 3.2.1 Property
Section 3.2.2 Community
Section 3.2.3 Estimate of Value

IV. LOAN DECISION

When the underwriting is concluded, the underwriter must prepare a recommendation for review and concurrence by the Mortgage Loan Unit Manager and then refer it to the Home Mortgage Loan Committee. The recommendation can be in a summary form, but provide sufficient information with which the Committee can render a decision. Attached as [Exhibit O] is a form of recommendation.

Mortgage Fund Operations Manual, October 5, 1993
Section 4.5.5 Bank Review of Application

Procedural Mortgage Lending Guide, May 1993
Section 2.13.1 Sub-loan Denial
Section 2.13.2 Sub-loan Approval

V. COMMITMENT

If the loan is approved as submitted, the underwriter should prepare a commitment letter [Exhibit P] in the Bank's approved format which contains terms and conditions which must be satisfied in order for the loan to close. The commitment must be specific as to the loan amount, interest rate, terms, monthly payments and indicate if 1/12th of the annual real estate taxes and 1/12th of the annual property insurance premium is to be collected with the monthly principal and interest payment.

The commitment will also be specific as to the loan documents which are to be prepared by the Bank and signed by the borrower. It should also specify the date by which the loan must be closed and the date by which a copy of the commitment signed by the applicant acknowledging agreement must be returned to the Bank. The signed copy should be returned with a check for any fees due the Bank.

If the applicant has not previously received an estimate indicating all costs to be paid to complete the closing, it should be advised at the time of commitment.

If the loan request has been denied the applicant should be advised in writing [Exhibit Q] indicating specifically why the loan was not approved. An encouraging comment for the applicant's future success would be appropriate.

Procedural Mortgage Lending Guide, May 1993
Section 2.13.1 Sub-loan Denial
Section 2.13.2 Sub-loan Approval

VI. CLOSING

When the commitment terms have been agreed to by the applicant, the underwriter, the Bank's legal representative, or the person responsible for loan closings, should prepare a loan closing file and checklist to account for all items necessary to close the loan. All items necessary to close the loan should be delivered to the Bank at least ten days prior to the date for closing.

A letter of instruction should be sent by the person responsible for loan closings to the Bank's legal representative indicating the interest to be collected, fees to be collected and the documents to be executed and sent to the Bank.

The loan closing should be supervised by the Bank's legal representative who will have prepared all loan documents in accordance with the commitment letter and will have coordinated with the Bank staff member responsible for loan closing. A full financial accounting of the transaction is prepared and referred to as a "Settlement Sheet".

When the loan is closed, the credit officer should send a letter to the customer congratulating them on their achievement in purchasing a home, and thanking them for their business. At the same time, information about other Bank services can be included with the letter.

VII. AFTER CLOSING

After the closing, the legal representative should deliver all of the loan closing materials to the Bank and indicate in writing items which are incomplete or missing. For instance, the mortgage must be recorded in the region where the property is located and may not be sent to the bank for several weeks.

The person responsible for loan closings should deliver the file to the Servicing Section where the loan number will be assigned and the accounting and other appropriate records will be established. The Servicing Section will assume the responsibility together with the legal representative for obtaining any documents not already received.

A conversation sheet [Exhibit R] should be established to document unwritten communication with the borrower during the term of the loan.

EXHIBITS

EXHIBIT O

LOAN ANALYSIS AND RECOMMENDATION

Date of Application: Loan No.:
Loan Amount: $ Interest Rate: % Term: Months
Purpose of Loan:
Owner-Occupied: Orig. Fee:
# of Units: AML:
Source: PMI:
Est. Settlement Date: LTV:

BORROWER: Age:
CO-BORROWER: Age:

PROPERTY ADDRESS

	Employment:	Position:	Years:
B			
C			
	Other Income:		
	Previous Employment:		
B			
C			
B2			

INCOME ANALYSIS

	Borrower	Co-Borrower
Base Salary		
OT		
Bonuses		
Commissions		
Divid/Int		
Net Rental		
Other		
Totals		

Total Gross Income $ Housing Ratio: %

DEBT ANALYSIS

Total New Housing Expense $
Total Other Debts $
Total Monthly Expenses $ Total Debt Ratio: %

PROPERTY ANALYSIS

Appraiser:
Appraised Value: $
Sales Price: $

RECOMMENDED FOR APPROVAL

Underwriter: Manager:

APPROVAL

Loan Committee: Full Board: Date:

DECLINED

Reason:

EXHIBIT K

(Application Acknowledgement)

[Date]

Name
Address

RE: Property Address

Dear _________:

This letter is to confirm our receipt of your application for a mortgage loan in the amount of $_______, together with the application fee in the amount of $_____.

It is understood the proceeds of the loan, if approved, will be used to purchase the subject property, on which this Bank will have a first lien.

Your application is being processed, and we expect to advise you with respect to approval by [DATE] (to complete processing we must receive the following by: [DATE]).

If processing is delayed, and we cannot have a decision by the date indicated above, we will advise you accordingly.

We appreciate the opportunity to be of service.

Very truly yours,

EXHIBIT E

SUPPLEMENTARY INFORMATION
TO MORTGAGE APPLICATION

---

1. Bank Statements [make copies and return originals]

2. Pay receipts [make copies and return originals]

3. Evidence of cash gifts

4. Income tax returns [make copies and return originals]

5. Copy of the purchase agreement

6. Proof of investments

7. Evidence of down payment

EXHIBIT L

ITEMS TO BE VERIFIED

---

1. Bank deposits

2. Employment and salary

3. Source of funds for down payment and closing

4. Credit History
   - -- payments to cooperatives
   - -- payments to stores
   - -- payments to utilities

EXHIBIT M

LETTER OF INSTRUCTION
TO APPRAISER

RE: ____

(Property Address)

Consider this letter a contract for your services to perform an appraisal of the subject property.

This appraisal is being requested by this Bank in connection with a mortgage application in the amount of $ _______.

Your written report of value is to be submitted to the Bank by [DATE] and in accordance with our agreement, your fee for services will be $_________, which is to be paid to you when three (3) copies of your report are delivered to the Bank. You may contact ____________________ and arrange to enter the property.

Your analysis of the property should include all of the following:

- Identification of the property;
- Description of the neighborhood;
- Location;
- Degree of development and growth rate;
- Trends in market prices;
- Marketing time;
- Land use;
- Predominant occupancy;
- Price range and predominant price;
- Age range and predominant age;
- Neighborhood analysis rating;
- Description of the site;
- Zoning;
- Highest and best use of land;
- Utilities;
- Streets;

- Lot;
- Flood hazard areas;
- Description of property improvements;
- Conformity with the neighborhood;
- Actual and effective age;
- Infestation, dampness or settlement;
- Insulation and energy efficiency;
- Layout and floor plans;
- Heating and cooling systems;
- Surfaces;
- Miscellaneous features;
- Improvement analysis rating;
- Remaining economy and physical life; and
- Impact of market condition and depreciation.

In arriving at your estimate of market value, you must use all three of the following approaches:

1. Cost
2. Sales
3. Income

If you should have any questions about the assignment, or need additional information, please contact the undersigned.

Very truly yours,

EXHIBIT I

HOME MORTGAGE APPLICATION REGISTER

App. No.	Date Rec'd	Borrower	Property Address	Amount Requested	Credit Officer	Approval Decision By	Approved	Declined

SECTION III

Mortgage Loan Servicing

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A. Organization Chart

B. New Account Information Sheet

C. Collection Record Card

D. Ledger Card

E. Payment Instruction Letter

F. Coupon Book

G. Amortization Schedule

PREFACE

Mortgage servicing is a highly specialized form of loan administration which incurs problems and requires functions not experienced with non-real estate loans. The profitability of a mortgage loan portfolio is determined to a great extent on the efficiency of its servicing performance. The Servicing Department should strive to maximize income by the diligent collection of payments and to use procedures which are cost-effective.

As the housing market increases, the business of servicing will be continually confronted with changes in servicing methods, laws and regulations governing the business, and the demands that it accomplish challenges with out significantly increasing its cost of operations.

During the period of development, it is essential that all participants commit to learning and practicing the policies and procedures enacted by the Bank.

I. MORTGAGE LOAN SERVICING

A. Responsibilities

Although the primary responsibility of this area is the collection of principal and interest payments until the loan is repaid, there are many important ancillary functions which must be carried out. The collective responsibilities of the section are important to maintain a high quality portfolio.

B. Organization

The size of the mortgage portfolio usually dictates the unit's organization and number of personnel required to operate efficiently. There are certain processes which often can be consolidated, and there are certain processes that must be distinctly separate. In particular are the responsibilities for the collection of payments and the accounting of payments received. It is obvious that for security reasons, it is best to keep these functions separate.

For the purpose of introducing and defining the various functions to be carried out in the section, we will assume the following organization structure. [EXHIBIT A]

II. SERVICING MANAGER

This individual will be responsible for the day-to-day management of all areas of the section, and will report directly to a senior Bank Manager, which is usually the manager in charge of the residential real estate lending department.

III. NEW ACCOUNTS / CUSTOMER RELATIONS SECTION

A. Duties

When a mortgage loan is closed, the Mortgage Loan Processing section should deliver all documents and information to the New Accounts Section. New Accounts will assign an account number, prepare a new account information sheet [EXHIBIT B], copies of which will be provided to each unit in the servicing section with appropriate support information for the particular unit as follows:

- Cashier

Collection record card [EXHIBIT C] -- this card will be used to transmit payment information to the accounting unit.

- Accounting

1. Ledger card [EXHIBIT D] on which all payments will be posted and all payments for taxes and insurance will be recorded.
2. Copy of payment letter to borrower. [EXHIBIT E]

- Document Control
  1. All permanent documents
     a. Mortgage
     b. Note
     c. Guarantees
     d. Insurance policies
     e. Title information
  2. General correspondence

- Delinquency and Foreclosure
  No advice required.

- Escrow
  1. Copies of insurance policies
  2. All tax information

- Secondary Market
  Only new account information sheet

In addition to internal communications, New Accounts will write to the borrower with payment instructions indicating whether the borrower will receive a bill from the Bank when payments are due or will provide the customer with a coupon book [EXHIBIT F] to facilitate the making of payments. The borrower can also be provided with an amortization schedule [EXHIBIT G], if appropriate.

Mortgage Fund Operations Manual, October 5, 1993
Section 4.7.1 Responsibilities of the Participating Banks

B. Customer Relations

During the term of the loan this unit will advise customers of any changes in procedures in the handling of their loan, process credit inquiries as authorized by the borrower, and respond to mail or telephone communications from borrowers.

IV. CASHIER

This unit will be responsible for receiving all payments, whether through the mail or received by tellers at branch offices. All payments from customer should be accompanied by coupons or bills. If cash is received by tellers, they should provide the customer with a receipt and deposit the money into the Mortgage Department's clearing account and send a copy of the coupon or bill directly to the Cashier section. The Cashier should make the appropriate entry on the customer collection card.

The collection cards and the clearing account should be settled against each other on a daily basis. While the settlement is referred to as a daily settlement, it may be several days before it can be accomplished, allowing time for copies of all entries to the clearing account to be received by the Cashier. The Cashier should daily send to Accounting customer collection cards for posting to the customer ledger card.

V. ACCOUNTING

A. Payment Records

Upon receiving collection cards from the Cashier, Accounting should post payments to the customer ledger card. The collection cards should be dated and initialed, indicating that posting has been carried out. If the payment is received late, and the late charge is not included, the customer should be sent a notice reminding them that their payment was late and that the late charge should be included with their next regular payment.

Payments should be posted on a regular basis, and a settlement procedure should be established to reconcile with the Cashier section, the clearing accounts and the Bank's general ledger. It is recommended that copies of reconciliation be sent to the Bank's Audit department daily.

Accounting, on written instructions from the Escrow unit, will make entries on the ledger for tax bills and insurance payments.

B. Interest Rates

This unit will also be responsible for adjusting interest rates as necessary.

C. Customer Reports

It is recommended that annually customers be provided with a complete status report of their account, indicating the following:

1. Principal balance
2. Interest paid during the year
3. Escrow payments received
4. Tax bills and insurance premiums paid

D. Monitoring Payments

Assuming that all payments will be due monthly on the first, Accounting should establish the practice of conducting a review of all ledger cards noting those for which payments have not been received by the fifteenth. A delinquent information report should be completed and sent to the Delinquency unit, which should follow its procedure to collect overdue payments. The Servicing Manager should be provided with a list of all payments uncollected as of the fifteenth (15th) and again on the first of the following month for payments still outstanding for the preceding month. When delinquent payments are received, the Delinquency unit should be notified immediately.

E. Reports

Accounting will be responsible for preparing a wide variety of reports, which will be required by the Bank's management, auditors, accountants, regulators and government agencies.

F. Payoff Statements

When a loan is to be paid off prior to its maturity, borrower will request a payoff statement, which the unit will prepare and issue.

Procedural Mortgage Lending Guide, May 1993
Section 8.1 Accounting
Section 8.4 Paid In Full
Section 8.5 Collections
Section 8.6 Relief Provisions

VI. DOCUMENT CONTROL

The proper safeguarding of loan documents and the orderly maintenance of correspondence is essential to the successful operation of the Servicing section. It is essential that documents be handled by as few people as possible to avoid lost or misplaced items.

A. New Accounts

When the unit receives a new account, an inventory sheet should be prepared and placed on the cover of the file. The sheet should indicate which items are in the file and which documents have not been received.

B. Document Collection

The unit should also maintain a master monitoring list which will show all documents not received for all loans. This list should be reviewed on a regular basis, and if documents have not been received within a reasonable time, the party responsible for the missing document should be contacted by letter requesting immediate response. This is often a lengthy process, but it must be pursued diligently. Auditors and regulators are very critical of institutions which do not practice good document control.

A system to monitor maturity dates for insurance policies and the monitoring of other date-sensitive matters should be established. The system should provide for a series of advance notices, starting approximately forty-five (45) days prior to the event. The unit should notify the appropriate party of the pertinent date and require that they keep the Control unit continually advised of the status.

C. Correspondence

Copies of all correspondence generated for mortgage loans should be kept on file in the unit.

D. Access to Files

While access to correspondence is not generally restricted, access to documents should be strictly controlled. The unit should establish a system which requires both signing for documents and/or files to be removed and prior approval of the section supervisor.

VII. DELINQUENCY AND FORECLOSURES

As indicated in the Accounting procedures, when payment have not been received by the fifteenth of the month, and payment was due on the first, then the Delinquency unit should be advised by use of a delinquency report form.

A. Late Notices

First notices should be sent to customers, reminding them that a payment is due which they should remit prior to the twenty-fifth (25) of the month with the appropriate late charge.

If payment is not received by the twenty-fifth, a second notice should be sent, stating that unless payment is made by the thirtieth (30) the loan will be declared in default and the Bank will be entitled to proceed with default remedies as stipulated in the loan documents.

B. Personal Contact

If these notices fail to produce a satisfactory response, the Delinquency unit should attempt to contact the borrower by telephone to arrange for a meeting to discuss the problem. If unsuccessful in all previous attempts, it would be appropriate to recommend to the Bank management that the matter be turned over to a legal representative for further action with the understanding that such action might include foreclosure.

Problem loan collection requires a great deal of time and careful handling to avoid legal problems adverse to the Bank. The term of the documents and the laws governing collection efforts must be scrupulously adhered to.

C. Management Notification

The Servicing Manager should be kept advised of all accounts overdue in excess of thirty days. The report should provide a brief explanation of the efforts to resolve the problem.

D. Foreclosure

If the Bank must foreclose, the Delinquency unit must be sure that the taxes and any other claims which could preempt the Bank's lien position are paid. Insurance also must be adequate to insure the Bank's interest. When a loan goes bad, the borrower often will not pay taxes, insurance premiums and other claims. It is advisable for the Bank to make periodic inspections of the property to see if it is occupied and being properly maintained. If the property is vacant, the Bank must take all necessary steps to protect its security. After foreclosure, the Bank will have to maintain the property and arrange for its sale

Procedural Mortgage Lending Guide, May 1993
Section 8.5 Collections
Section 8.6 Relief Provisions
Section 8.7 Foreclosure Alternatives
Section 8.8 Foreclosure
Section 8.9 Reinstating Sub-loans Out of Foreclosure
Section 8.10 Managing REO Property

VIII. ESCROW

This function could be handled in the Accounting area, but is being treated as a separate unit for illustrative purposes. As a measure of control, often mortgages require that borrowers, in addition to paying the required interest and principal, also pay the amount necessary to pay real estate taxes and hazard insurance premiums.

A. Establishing Account

At the time the loan is closed, the Bank learns of the current annual real estate tax charges and the current premium for insurance. Assuming a borrower will make monthly payments, then one-twelfth of the taxes and insurance premium is remitted with the interest and principal. These funds are deposited in a separate account and the Bank may be required to pay interest on these deposits. The borrower must either send tax bills and insurance premiums, or in some geographic areas, banks can obtain tax bills directly from taxing authorities, further reducing the risk of taxes not being paid on time.

B. Obtaining Receipts

The alternative to escrowing for taxes and insurance is to require the borrower to submit receipts or other proofs of payment. Following up for the production of receipts by borrowers can be costly both in time and money. In some cases, it may be necessary to contact taxing authorities and insurance companies to determine if payment has been made.

C. Paying Bills

The Escrow unit is responsible for reviewing the borrower's escrow account to be sure there are sufficient funds with which to pay bills. If the funds are adequate, the unit will draw a check and make the required payment. A copy of the check request will be sent to Accounting where the appropriate entry will be made on the customer's ledger card. If there is a shortage in the account, the borrower must be requested to immediately send to the Bank the amount necessary to make up the shortage.

D. Insurance

The unit can also review insurance policies to determine if the coverage is adequate, that the policy is issued by a company satisfactory to the Bank, and that the Bank is properly identified as an insured party. After the review, the policy should be given to the Documentation unit to file in the document file.

E. <u>Analysis</u>

When tax bills and insurance premiums are received, the Escrow unit should compare the charges to those paid the previous year. If the new bills show an increase, then the monthly escrow payment from the borrower must be increased accordingly. When a change is required in the escrow payment, the customer should be notified by mail.

IX. SECONDARY MARKET

This market provides the opportunity to the Bank of creating mortgages with its own funds and then selling the loans to other institutions. When the market is established, it behaves much like other stock and bond markets. Demand increases and decreases from time to time; and like other investment markets, interest rates are constantly changing. If the secondary market rates increase above the rate the Bank has charged for its loans, the Bank may have to discount or take less than its principal amount in order to provide the correct market rate to an investor buying loans in the secondary market. If secondary market rates drop below what the Bank has charged for its mortgages, then it can sell the loans at a premium as a result of getting more than its principal balance.

When a financial institution determines it wants to sell mortgage loans on a regular basis, it is advisable to establish a separate unit to handle this function.

A. Packaging

When an order to sell is received from the Asset/Liability area of the Bank, the unit will assemble a group of mortgages in the amount of the sell order. The loans selected for sale will be determined by existing market requirements. Matters such as interest rates, maturities, size of the loan, location of the property, property type and required discount rates will all be considered.

B. Benefits

Participating in a secondary market provides the Bank with a continuing source of funds with which to meet customers' needs.

C. Market Conditions

The unit should also monitor market activity to assist management in making sales decisions.

X. SINGLE-FAMILY CONSTRUCTION LOAN

In cases where the Bank is providing construction financing for a homeowner borrower, the loan should be serviced by the Residential Construction Loan Department.

The Servicing Manager can monitor the progress by communicating with the Construction Loan Department.

EXHIBITS

EXHIBIT C

Loan No.__________

CASHIER COLLECTION CARD

Borrower: ____

Property Address: ____________________________________

____

Payment Due Date: $________ Amount Due: $________ Late Charge: $________

	Date Recieved	Amount	How Paid	Received By
JANUARY				
FEBRUARY				
MARCH				
APRIL				
MAY				
JUNE				
JULY				
AUGUST				
SEPTEMBER				
OCTOBER				
NOVEMBER				
DECEMBER				

Sent to Mortgage Accounting:
J
F
M
A
M
J
J
A
S
O
N
D

Posted to Ledger By:
J
F
M
A
M
J
J
A
S
O
N
D

EXHIBIT D

Due Date: HO: ________
Other: ________
Loan No.: ________

LEDGER CARD

Borrower:

Property Address:

Mailing Address: ________

Telephone: ________

Loan Amount: ________

Special Instructions: ________

Interest Rate:

Loan Maturity Date:

Method of Payment: ☐ Coupon ☐ Direct Billing

Payment Due	Payment Rec'd	Amount	Late Charges	Interest	Principal	Principal Balance	Receipts	Disbursement	Date	Purpose	Balance